


Montana Teachers' Retirement System (TRS)



Termination Pay
Irrevocable Election Form
Tutorial

LEARN & PLAN FOR YOUR RETIREMENT



To make the most of your retirement, you'll want to learn about all of the pieces that come together to provide your retirement benefits.

Termination pay is an important one of those pieces. As we'll explain, you have three options for using your termination pay when you retire.

To help you plan for retirement, TRS staff can provide an "Estimate of Benefits." This is an estimate of the amount you will receive each month while retired. You can use your termination pay to increase the amount of your monthly benefits.

As you near retirement, ask your employer for an estimate of your termination pay amount and give that information to TRS. We will then include that information in an estimate showing a range of possible monthly benefits based on which termination pay option you choose.

TERMINATION PAY & YOUR AFC



Termination pay includes any form of:

- Vacation pay
- Sick leave
- Severance pay
- Amounts provided under an early termination incentive plan, or other payments contingent on you terminating your employment, being paid at the time of termination.

You may choose **not** to include your termination pay in the calculation of Average Final Compensation (AFC) that determines your monthly retirement benefit.

Or, to increase your retirement benefit, you may choose to add your termination pay into your AFC calculation. TRS will calculate the amounts of one-time contributions due from you, as the employee, and from your employer. Adding termination pay to your AFC increases your monthly retirement benefit.

Also, you can choose to sign a 'Termination Pay – Irrevocable Election Form' to withhold your employee contribution from your termination pay, which is then submitted to TRS on a tax-deferred basis.

TERMINATION PAY OPTIONS



You have three options for managing your termination pay. Only two of these options (Options 1 and 2) add termination pay into the AFC calculation, thus increasing your monthly retirement benefit.

If, at the time of termination and retirement, you are eligible to receive termination pay and wish to include it in the calculation of average final compensation, you must select either Option 1 or Option 2.

The option selected will determine how that payment is to be processed by your employer.



TERMINATION PAY OPTIONS, Cont.



Option 1 –TRS will add the total amount of your termination pay to the three highest consecutive salaries used in the calculation of your average final compensation (AFC). AFC is one of the factors used to calculate your monthly retirement benefit.

Option 2 –TRS will divide the termination pay amount by the total number of years of creditable service. This yearly amount of termination pay is then added to each of the three highest consecutive salaries used in the calculation of your AFC.

Option 3 – Exclude the termination pay from the calculation of your average final compensation. No contributions are due to TRS from you or your employer.

TERMINATION PAY – IRREVOCABLE ELECTION FORM

If you elect to include termination pay in the calculation of your AFC under Option 1 or Option 2, you may choose to deduct the 'Employee Contribution Due' from your termination pay on a tax-deferred basis, by your employer. To be eligible for this tax-deferred contribution, you and your employer must sign a 'Termination Pay - Irrevocable Election' form at least 90 calendar days prior to your date of termination.

The 'Termination Pay - Irrevocable Election' form is an irrevocable payroll deduction authorization that allows you to reinvest your 'Employee Contribution Due' to TRS on a tax-deferred basis.



TERMINATION PAY – IRREVOCABLE ELECTION FORM, Cont.



If you sign a Termination Pay – Irrevocable Election Form:

Your employer is required to withhold and remit to TRS the 'Employee Contribution Due' from your termination pay, tax deferred.

The binding irrevocable election is effective on the date the form is signed by you and your employer.

The irrevocable election is valid only with your current employer. If you change employers, you must sign a new irrevocable election authorization.

If you have more than one employer reporting wages on your behalf to TRS, you must sign an irrevocable election with each employer.

TERMINATION PAY – IRREVOCABLE ELECTION FORM, Cont.

Signing and submitting the irrevocable election is not to be construed by your employer or TRS as a commitment for retirement on a specific date.

Once the irrevocable election is signed:



You may not change the termination pay option elected.

You do not have the option to have only a portion of your termination pay reported to TRS.

You may not prepay any portion of the 'Employee Contribution Due.'

TERMINATION PAY – IRREVOCABLE ELECTION MEMBER INFORMATION

An election form will be provided with an estimate of benefits. As a TRS member you must complete the 'Member Information' section.

Elect Option 1 or 2 by initialing the option of choice.

To acknowledge the option elected, sign and date the form, at least 90 calendar days before your last pupil instruction day, pupil instruction related day, or termination date.

READ INSTRUCTIONS ON REVERSE SIDE. PLEASE TYPE OR PRINT LEGIBLY IN DARK INK.

MEMBER INFORMATION

First _____ Middle _____ Last _____ Suffix _____
Printed Name

Maiden Name _____ Date of Birth _____ Social Security Number XXX-XX- _____

Mailing Address-Including City, State & Zip+4 Code (If unknown, use 5-digit Zip Code) _____

Area Code and Telephone Number _____

I hereby elect to use termination pay in the calculation of average final compensation in compliance with option:

		Initial one option
OPTION 1	I elect to add the total amount of my termination pay to the three highest consecutive salaries used in the calculation of my "average final compensation" (AFC). My employer and I shall pay the required contributions to the retirement system, to adequately compensate the Montana Teachers' Retirement System (TRS) for the additional benefit.	
OPTION 2	I elect to add a portion of my termination pay to the three highest consecutive salaries. I understand that the termination pay is divided by my total years of creditable service to determine a yearly amount. The yearly amount of termination pay is then added to each of the three consecutive year's salary used in the calculation of my AFC. My employer and I shall pay the required contributions to the retirement system, to adequately compensate the TRS for the additional benefit.	

At the time of my termination and retirement, I hereby direct my employer to deduct from my termination pay the contributions due the TRS. I understand that my contributions will be withheld on a tax-deferred basis, provided the 90 calendar day requirement has been met, and remitted to the TRS by the employer. I acknowledge I have read and understand the Termination Pay-Irrevocable Election Instructions on the backside of this form. By signing below I acknowledge that I am entering into an irrevocable contract.

Member's Signature _____ Date _____

TERMINATION PAY – IRREVOCABLE ELECTION

EMPLOYER INFORMATION

EMPLOYER INFORMATION

Name of School District

TRS Six Digit Employer Number

Mailing Address – Including City, State & Zip+4 Code (If unknown, use 5-digit Zip Code)

Area Code and Telephone Number

By signing this form, the employer acknowledges their obligation to remit to the TRS the appropriate employee tax-deferred contribution and the employer contribution due on termination pay.

Certifying Officer's Printed Name

Title

Certifying Officer's Signature

Date

The election is to be forwarded to your business office for completion of the 'Employer Information' section, at least 90 calendar days before your last pupil instruction day, pupil instruction related day, or termination date. This information will be retained on file until you decide to terminate your employment and apply for a monthly retirement benefit.

Your employer will provide the required information, sign and date the form, and return the properly completed form to the TRS office.

Your employer is instructed to retain a copy of the election form in your personnel file until you submit notification to your intention to terminate your employment for the purpose of retirement.



TERMINATION PAY OPTION ELECTION

If you elect Termination Pay Option 1 or Option 2, the tax-deferred contributions are limited to the gross amount of the termination pay, less any Social Security tax deduction.

If, after the Social Security tax is deducted, the net amount of the termination pay is less than the 'Employee Contribution Due' to TRS, you must send TRS a personal check for the balance due.



TERMINATION PAY – IRREVOCABLE ELECTION OPTION 1 – CALCULATION FORMULA

Termination Pay Amount
Less FICA/Medicare (7.65%)
Net Amount (Tax Deferred)
Less Calculated TRS Contribution
Balance Paid To Member (less
federal and Montana state taxes)
OR
(*Out Of Pocket Expense) –
Payable To TRS By Personal Check

*An 'Out Of Pocket Expense' represents an additional funding source for your benefit increase.

TERMINATION PAY - OPTION 1

EMPLOYEE COST CALCULATION - EXAMPLE

Termination Pay		Employee Contribution Rate		Years of Service		Your Cost
\$ 5,000.00	X	3.36%	X	30.00	=	\$5,040.00

This example represents a TRS member retiring at age 60, electing Termination Pay Option 1. The contributions due to TRS on termination pay are calculated on an individual basis, multiplying the termination pay amount by the employee contribution rate, based upon your age at the time of retirement and your years of service credit.

In this example, electing this option increases the monthly retirement benefit by \$57.87 for the rest of the member's life.



'Your cost' is taken out of the termination pay being paid to you by your employer.

TERMINATION PAY - OPTION 1

EMPLOYER COST CALCULATION – EXAMPLE

Termination Pay		Employer Contribution Rate		Years of Service		Employer Cost
\$ 5,000.00	X	3.51%	X	30.00	=	\$ 5,265.00

The employer contributions due to TRS on termination pay are calculated by multiplying the termination pay amount, the employer contribution rate, based upon your age at the time of retirement and your years of service credit.

The employer cost is paid from the county retirement fund.



TERMINATION PAY - OPTION 2 - EXAMPLE

Employee Cost Calculation

Termination Pay		Employee Contribution Rate	Your Cost
\$5,000.00	X	7.15%	= \$357.50

In our example, this member has \$5,000.00 in termination pay divided by 30.00 years of service, resulting in a yearly amount of \$166.66. To fund the appropriate increase in benefits, we calculate the employee contribution by multiplying the Termination Pay amount and the employee contribution rate in effect at the time of retirement. Electing this option increases the monthly retirement benefit by \$6.94, for the rest of the member's life.

Employer Cost Calculation

Termination Pay		Employer Contribution Rate	Employer Cost
\$5,000.00	X	9.47%	= \$473.50

We calculate the employer contribution by multiplying the Termination Pay amount and the appropriate employer contribution rate in affect at the time of retirement. The employer cost is paid from the county retirement fund.

TERMINATION PAY – IRREVOCABLE ELECTION FORM NOT SIGNED

If you did not sign a 'Termination Pay – Irrevocable Election' form, or if the form was not properly completed, you are not precluded from the use of termination pay in the calculation of your average final compensation, under Option 1 or Option 2. However, the employee contributions due to TRS on termination pay will be taxed.

Please contact the TRS office immediately so that we may advise you of any Internal Revenue Code Section 415 limitations that may apply, and provide you with a revised estimate of benefits, if applicable.

If Internal Revenue Code Section 415 limitations apply, you will not be allowed to include the full amount of the termination pay in the calculation of your average final compensation.

Your employer must remit the net amount of the termination pay directly to you, after the appropriate federal, Montana state, and Social Security taxes are withheld from the gross amount of your termination pay.

You will be responsible for remitting the employee contributions due to TRS by personal check to fund your increase in benefits by the 15th of the month following your date of termination.

Thank you for taking the time to view the Termination Pay – Irrevocable Election Form and Termination Pay tutorial. The information provided in this tutorial is for educational purposes only. It is intended to provide basic information about the services and benefits provided by the Montana Teachers' Retirement System under the laws and rules applicable as of the date of production.

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